

Fiscal TOPICS

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Secure an Advanced Vision for Education (SAVE) and Property Tax Equity Relief (PTER) Funds

During the 2008 Legislative Session, the General Assembly enacted HF 2663 (State Sales and Use Tax for School Infrastructure Act). Beginning July 1, 2008, the Act repealed the School Infrastructure Local Option (SILO) Sales Tax, increased the State sales tax from 5.0% to 6.0%, and designated the increase to be used for school infrastructure purposes or property tax relief. Funding of the State sales/use tax for school infrastructure is to be repealed at the end of 2029.

Secure an Advanced Vision for Education (SAVE)

Most of the revenue from the State sales/use tax for school infrastructure is deposited in the SAVE Fund. In general, funds from the SAVE Fund are distributed to school districts in the same manner as the SILO sales tax funding was distributed (statewide tax revenues per student continue to be calculated as if the SILO tax continues to exist even after the “grandfather” provisions for all jurisdictions expire per Code Section 423E.4). School districts receive monthly payments based on Department of Revenue estimates. The payments are based on 95.0% of the overall estimates with a reconciliation payment made in November following the fiscal year. The reconciliation payment includes adjustments for the difference between the estimated payments and the actual Iowa sales/use tax accumulated during the fiscal year. Funding is provided to school districts on a per pupil basis. By FY 2014, all grandfather provisions that provided some school districts the right to retain the district’s own share of the sales/use tax for school infrastructure will expire, and all school districts will receive the same per pupil amount. Use of SAVE funds received by a school district is designated by each school district’s revenue purpose statement.

Property Tax Equity and Relief (PTER)

After the SAVE distribution, the remaining State sales/use tax for school infrastructure revenue is deposited in the PTER Fund and used for property tax relief provided through the school aid formula. Because of timing issues, the PTER funding providing property tax relief is provided in the fiscal year after the PTER Fund amount is determined. For example, the excess school infrastructure sales/use tax revenues from FY 2012 are determined in November following the fiscal year. The Department of Management (DOM) will apply the PTER funding formula and lower FY 2014 property tax totals for eligible school districts based on the amount of PTER funds. Combining PTER with the \$24.0 million standing appropriation designated for school aid property tax relief, the funding formula works as follows:

- The first step is to provide property tax relief to all school districts that have an adjusted additional levy rate above the statewide average. If funding is insufficient to reduce those rates to the statewide average, the funding is used to provide property tax relief to the districts with the highest levy rates until the funds are exhausted.
- If there are funds remaining after the statewide average levy rate goal is achieved, then the remaining funds are used to increase the foundation level. The increase in the foundation level for the specific fiscal year is based on the funds available. This action provides property tax relief to all school districts.

SAVE Fund Allocation Amounts

The following table provides SAVE allocations to school districts from FY 1999 through estimated FY 2012 (allocations from FY 1999 – FY 2003 were considered SILO sales tax allocations). The amount allocated generally reflects the amount of sales tax generated for school infrastructure purposes and has increased annually from \$9.7 million in FY 1999 to \$366.0 million in FY 2008. The amounts reflected in the following table include a \$10.0 million appropriation from the Rebuild Iowa Infrastructure Fund to the SAVE Fund that occurred annually from FY 2005 – FY 2010. In general, growth in the amounts for those years was due to growth in the implementation of the SILO with all counties having approved usage by FY 2008 (as indicated by the red portion of the following bar graph). Enactment of HF 2663 (School Infrastructure and Taxation Act) during the 2008 Legislative Session resulted in a statewide sales/use tax for school infrastructure that replaced the SILO. Since enactment of the new law, SAVE allocations are estimated to approach nearly \$400.0 million in FY 2012.

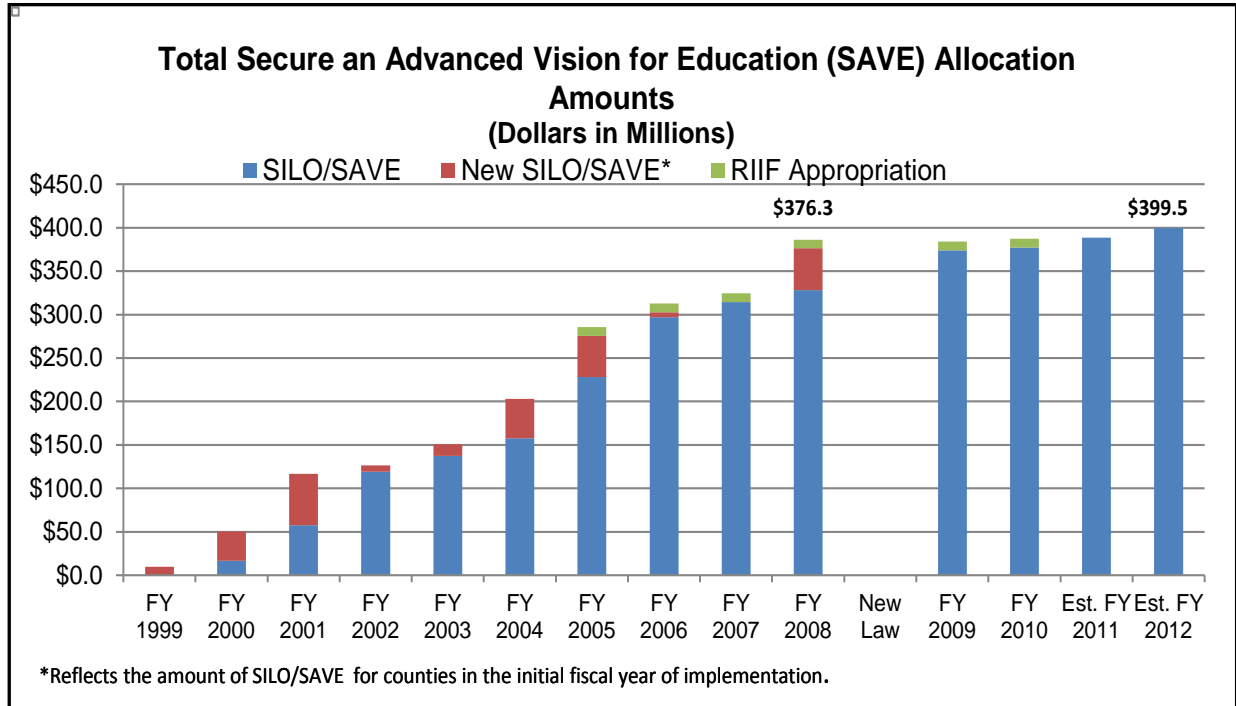
More Information

LSA SAVE/PTER Funding Information: http://staffweb.legis.state.ia.us/lfb/docs/k-12_ed/silo/silo.htm

Department of Revenue SAVE Allocation Estimates: <http://www.iowa.gov/tax/locgov/locgovLOST.html>

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Secure an Advanced Vision for Education and the Property Tax Equity and Relief Funds



PTER Fund Allocation Amounts

Enactment of HF 2663 required that after SAVE formula allocations were distributed, any remaining funds be deposited in the PTER Fund to provide additional property tax relief to eligible school districts. Sales/use tax revenue deposited in the PTER Fund is as follows:

- Tax generated in FY 2009 → Used for school aid property tax relief in FY 2011 = \$25.4 million (143 districts received)
- Tax generated in FY 2010 → Used for school aid property tax relief in FY 2012 = \$6.7 million (86 districts received)
- Tax generated in FY 2011 → Used for school aid property tax relief in FY 2013 = Estimated at \$7.3 million

Reason for the Significant Decrease in the Amount Deposited to the PTER Fund

As noted above, the amount of PTER funding was reduced by \$18.7 million (-73.6%) for school aid property tax relief in FY 2012 (compared to the FY 2011 amount). The Department of Revenue has indicated that the initial year's PTER amount was inflated, in large part due to an issue regarding residential utility sales. The SILO sales tax was applied to residential utility sales, unless the jurisdiction applied a franchise fee. However, residential utility sales were, and remain, exempt from the Iowa sales/use tax. Once the SILO tax was repealed and replaced with a one cent sales and use tax, the tax base for school infrastructure was reduced by an amount equal to residential utility purchases. The Legislation that repealed SILO also required that school district funding continue as if SILO still existed. The Department has indicated that they relied on retailers to self-report sales by county, but not all retailers did. The Department discovered that utilities reported sales tax amounts for SILO incorrectly for the first three quarters of FY 2009. Although the correct amount of tax was collected and distributed, the unknown discrepancy resulted in distributions to school districts that disproportionately favored the PTER Fund at the expense of the SAVE Fund. The Department has noted that deteriorating economic conditions contributed to this issue going undetected.

Another issue that may impact the SAVE and PTER allocations is sourcing of the use tax. While the Iowa sales tax has a complementary and equivalent use tax, there is no complementary and equivalent use tax for locally imposed taxes. Once the locally imposed SILO tax was repealed and replaced with a statewide sales tax, it was assumed that the additional one cent of sales tax would also draw in an additional one cent from the complementary use tax. In general, this additional tax revenue was intended to be deposited in the PTER Fund and used for property tax relief through the school aid formula. However, if a use tax return identifies the county location of the sale generating the use tax, that money will be allocated to the SAVE Fund because it is assumed that the sale would have also been subject to the SILO tax. The Department of Revenue has determined that the amount of use tax distributed to the SAVE Fund has increased from \$24.1 million in FY 2006 to \$42.7 million in FY 2011. If this trend continues, there may be slow or negative growth in future PTER Fund deposits.